

Minutes of the meeting held on June 16, 2022

Present: Francis Murphy – Chair, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, Joseph McCann, Ellen Philbin, James Quirk, and Chris Burns.

The meeting was called to order at 11:00 AM. The meeting was digitally recorded. This was a hybrid meeting, held in-person in the Sheila Tobin Conference Room at 125 CambridgePark Drive, with some participants joining via Webex videoconference.

Agenda Item #1 – Actuarial Valuation

Kathy Riley appeared from the Segal Company. David Kale and Michelle Kincaid participated in discussion of the valuation. The Board reviewed a draft of the 2022 actuarial valuation. Riley noted a 3.8% increase in the number of active members from 2019 to 2021. There are now 3,156 members vs. 3,040 in 2019. At the same time salaries increased by 5.2%. Riley noted that this is a smaller-than-expected increase as salaries would typically be assumed to grow by 4%, even if the number of employees remained the same. Investment returns were very strong, with assets increasing by 16.95% in 2020 and 11.27% in 2021. Riley stated that the system used the market value of assets in the prior valuation, but she recommended that the system return to a smoothing method going forward. This means that not all of the returns will be recognized immediately. The scenarios of various funding schedules prepared by Segal all assume the adoption of asset smoothing. Gardner stated that he objected to using market value in the last valuation and that he would strongly favor using asset smoothing in the future.

Riley reviewed an experience analysis of the last two years. The system saw actuarial gains due to strong investment returns, lower than expected salary growth, higher than expected mortality among retirees and having fewer retirements and disabilities than expected. Riley reviewed the current mortality assumption. She noted that she would have expected 145 deaths among retirees, disabled retirees and beneficiaries in 2020 and 2021. The actual number of deaths was 225, which is likely attributable, at least in part, to excess deaths from COVID. Going forward, she recommended eliminating the one-year set forward for Group 1 employees and updating the projection scale from MP-2019 to MP-2021. She stated that this was a very minor change, but the auditors at Cambridge Health Alliance insisted on the point.

Riley stated that she asked Segal Marco to provide data on likely investment returns going forward. Over the next 20 years, Segal Marco estimated returns of 7.17% annually. Riley prepared funding schedules which lower the assumed rate of return from the current 7.25% to either 7.1% or 7%. She did not recommend making any changes to current assumptions around salary increases, retirement, turnover or disability. As requested by the Board, some of the potential funding schedules show the impact of raising the COLA base from \$16,000 to \$18,000. Riley reviewed various options for a funding schedule. The present funding schedule pays off the full unfunded liability by 2026. The City's appropriation increases by 12.1% each year until 2026. Given the strong gains of the last two years, it is possible to adopt a schedule which would lower the investment return assumption to 7.1% and increase the COLA base to \$18,000, while maintaining the 2026 funding date. If the system opted to lower the investment return assumption to 7% and increase the COLA base to \$18,000, it would be necessary to either extend the funding date to 2027 or make an increase to the City's appropriation. By increasing appropriation payments 13.45% annually, the City could maintain the 2026 funding date.

Kale stated that the City strongly prefers to maintain the 2026 funding date. He also stated that there has been some pressure from bond rating agencies to lower their investment return assumption. The Chairman stated that he would favor adoption of proposed schedule #2, which adopts a 7.1% return assumption and \$18,000 COLA base. He said that he felt it was important to increase the COLA base as retirees are seeing pension benefits erode due to inflation. McCann stated he also felt that schedule #2 seems to allow both the City and the Board's priorities to be adopted.

Gardner moved to adopt asset smoothing going forward. McCann seconded the motion and it was voted unanimously. Gardner stated that he hoped the system would opt to maintain smoothing for the foreseeable future, rather than switching to market value due to short-term convenience.

Gardner stated that he did not feel it was an appropriate time to increase the COLA base, given the poor investment returns so far in 2022. He proposed that the Board postpone consideration of a COLA base increase until the end of the year. Riley stated that in order to prepare GASB reports, it would be helpful to be able to complete the valuation by the end of June. Quirk reminded the Board that any increase in the COLA base would need to be approved by the City Council and could not go into effect until July 2023. Kale requested to be excused while he relayed information about schedule #2 to the City Manager.

Riley stated that she completed a preliminary review of the impact of adopting Sections 90A, 90C and 90D. These sections set a minimum benefit for any member retiring with at least 25 years of service, such that it cannot be less than 50% of the salary currently being paid for the position from which they retired. She stated that it appears that 238 superannuation retirees would be eligible for an immediate increase in their allowance, and the average increase was \$17,000 annually. This would add roughly \$40 million to the unfunded liability. It appears that the benefits largely accrue to highly paid employees who retired at a young age. Riley stated that she was aware of other systems who attempted to adopt these sections, but subject to certain caps or other limitations on eligibility. She stated that she would need more time to run any scenarios the Board wished to evaluate. She warned that in her experience, systems which adopted these sections quickly find that employees will be incentivized to retire early once they have at least 25 years of service. She also noted that at least once City reversed itself and stopped offering the enhanced benefit to new retirees due to the cost. Riley stated that she had not completed an evaluation of the cost for adoption of Section 90A, affecting Accidental Disability retirees. The Chairman said that he had hoped to target lower paid employees who had more need of a boost to their retirement income. Gardner stated that he felt the Section 90 enhancements had the potential to be extremely expensive. He also noted that there does not appear to be any language in the statute which would authorize any type of limits or caps on the benefit, and he was concerned that any limit might not be upheld by a court. He stated that he would oppose any move to adopt Section 90 until the system is fully funded, and only after significantly more study.

Kale stated that he consulted with the City Manager, and he would be supportive of the adoption of funding schedule #2. Shinkwin moved to adopt funding schedule #2, as well as adopting the other recommendations from Segal as to the mortality table and the administrative expense assumption. McCann seconded the motion. The motion carried on a 4-1 vote. Gardner voted in the negative, stating that he opposed the increase in the COLA base, although he did support all other aspects of the motion. Riley stated that she work on drafting final reports for the valuation and for GASB. She expected to have the reports ready for final adoption in August or September.

Agenda Item #2 – Minutes

Motion by Chamblin-Foster, seconded by Shinkwin to accept the regular minutes of the meeting held on May 3, 2022. The motion carried on a 4-0 vote, with McCann abstaining.

Motion by Shinkwin, seconded by Chamblin-Foster to accept the executive session minutes of the meeting held on May 3, 2022. The motion carried on a 4-0 vote, with McCann abstaining.

Agenda Item #3 - Warrants

Motion by Shinkwin, seconded by Gardner to accept payment of Warrant #10 in the amount of \$8,671,903.59 and Warrant #11 in the amount of \$2,015,405.06. Voted unanimously.

Agenda Item #4 – Superannuations

Motion by Gardner, seconded by McCann to accept the Superannuation retirement applications submitted by Margaret Buckley, Clinical Educator, Cambridge Health Alliance with thirty-eight years, five months; Karen Cooke, Human Rights Officer, Cambridge Health Alliance with thirty years, eight months; Linda Costa, Paraprofessional, School Dept. with eighteen years, eight months; William Courier, Manager / Finance & Operations, Library with forty years, two months; Cheryl DePasquale, Senior Clerk, School Dept. with ten years, nine months; Louis DePasquale, City Manager with forty-seven years, eleven months; William Hansis, Senior Clerk, School Dept. with thirty-eight years, five months; Stephen Hardy, Treatment Plant Operator, Water Dept. with twenty one years, ten months; Joanne Johnson, Operations Assistant / COVID Response Coordinator, School Dept. with thirty years, ten months; Yanny Kavanagh, Nurse Practitioner, Cambridge Health Alliance with forty-three years, six months; Karen Leighton, Family Liaison, School Dept. with thirty-four years, eight months; James Maloney, Chief Operating Officer, School Dept. with forty-six years; James Monagle, City Auditor with twenty-six years, one month; Richard Moschner, Emergency Telecommunications Dispatcher, Emergency Communications Dept. with thirty years, seven months; Thomas Mulford, Building Maintenance Technician, Housing Authority with fourteen years, seven months; Linda Prosnitz, Housing Planner, Community Development Dept. with twenty-one years, five months; Lolita Roland, RN Care Manager, Cambridge Health Alliance with fourteen years, four months; Mary Shinkwin , Athletic Trainer, School Dept. with twenty-two years, eight months; Jose Silva, Reservoir Caretaker, Water Dept. with thirty-four years, five months; and Denise Sullivan, Family Liaison, School Dept. with twenty-three years, one month. Voted unanimously. The Chairman noted the tremendous voids left by the departure of so many long-time employees.

Agenda Item #5 - Make-ups/Redeposits/Liability

The Board reviewed make-up and redeposit worksheets for one member.

Motion by Chamblin-Foster, seconded by McCann and to allow the redeposit of a refund by Ashley M. Keating for three years. Voted unanimously.

Agenda Item #6 – Refund Applications

The Board reviewed a list of refund applications submitted in May.

Motion by Gardner, seconded by McCann to accept ten refund applications. Voted unanimously.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session the conclusion of the executive session. On a roll call, the vote was as follows:

John Shinkwin:	YES
Michael Gardner:	YES
Nadia Chamblin-Foster	YES
James Monagle:	YES
Francis Murphy:	YES

Agenda Item #7 – Accidental Disability Benefit – Joyce Bowden

The Board reviewed the certificates and narrative reports of three separate medical exams, the member's application, treating physician's statement and employer's statement pertaining to Joyce Bowden's Accidental Disability application. Attorney Thomas Gibson appeared, representing Joyce Bowden.

Chamblin-Foster moved to accept the findings of the medical panel and to grant Accidental Disability benefits to Joyce Bowden, a Captain in the Fire Dept. Shinkwin seconded the motion and it was voted unanimously.

Agenda Item #8 – Accidental Disability Application – Diarra Jones

The Board reviewed the member's application, treating physician's statement and employer's statement pertaining to Diarra Jones' Accidental Disability application. Attorney Thomas Gibson appeared, representing Diarra Jones.

Chamblin-Foster moved to accept the application for Accidental Disability benefits filed by Diarra Jones, a Laborer in the Dept. of Public Works and to request that PERAC convene a medical panel. Shinkwin seconded the motion and it was voted unanimously.

Agenda Item #9 – Accidental Disability Application – Peter Mickiewicz

The Board reviewed the member's application, treating physician's statement and employer's statement pertaining to Peter Mickiewicz' Accidental Disability application.

Shinkwin moved to accept the application for Accidental Disability benefits filed by Peter Mickiewicz, a Firefighter and to request that PERAC convene a medical panel. Chamblin-Foster seconded the motion and it was voted unanimously.

Agenda Item #10 – Survivor Benefit – Dipak Nepal

The Board reviewed an application for survivor benefits, marriage license and death certificate for Dipak Nepal.

The Director stated that Mr. Nepal was a Maintenance Technician with the Cambridge Housing Authority. He died on April 20, 2022. The application was in good order for processing.

Motion by Gardner, seconded by Shinkwin to grant survivor benefits pursuant to section 12(2)(d) to the surviving spouse of Dipak Nepal. Voted unanimously.

Agenda Item #11 – PERAC Memos

The Board reviewed PERAC Memo #12, #13 and #14. Quirk gave an overview of the impact of the latest Vernava decision and noted that there was the potential for legislative action to undo some of the impact of the Supreme Judicial Court's decision.

Agenda Item #12 - Old Business

Not needed.

Agenda Item #13 - New Business

Not needed.

Agenda Item #14 – Executive Session

Agenda Item #7 – adopted

Agenda Item #8 – adopted

Agenda Item #9 – adopted

Agenda Item #10 – adopted

Agenda Item #15 - Chairman's Report

The Chairman stated that he attended a cybersecurity presentation at MACRS and he hoped to review procedures around making direct deposit payments to retirees.

Agenda Item #16 – Executive Director's Report

The Director stated that she was preparing for the KMPG audit.

The following documents were also reviewed by the Board:

- Notice of Retiree Deaths
- Correspondence to PERAC dated May 4, 2022 re: Emergency Communications Dispatchers

- January Financials – General Ledger, Summary of Accounts, Trial Balance, Adjustments, Cash Disbursements, Cash Receipts, Wire Transfers
- February Financials – General Ledger, Summary of Accounts, Trial Balance, Adjustments, Cash Disbursements, Cash Receipts, Wire Transfers
- March Financials – General Ledger, Summary of Accounts, Trial Balance, Adjustments, Cash Disbursements, Cash Receipts, Wire Transfers
- Administrative Budget 2022
- Bernstein Litowitz Berger & Grossman – Q1 2022 Report
- Manager/Vendor Disclosures – Mellon Emerging Markets Index Fund, Mellon Small Cap Index Fund

McCann moved to adjourn at 1:30 PM.